

Highway User Revenue Fund

**Fiscal Year 2006
Year- End Report**



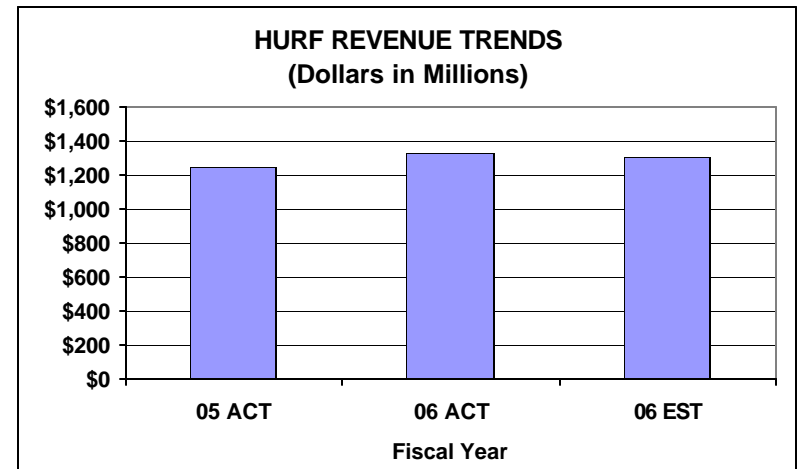
**Arizona Department of Transportation
Financial Management Services
Office of Financial Planning
August 2006**

Highway User Revenue Fund

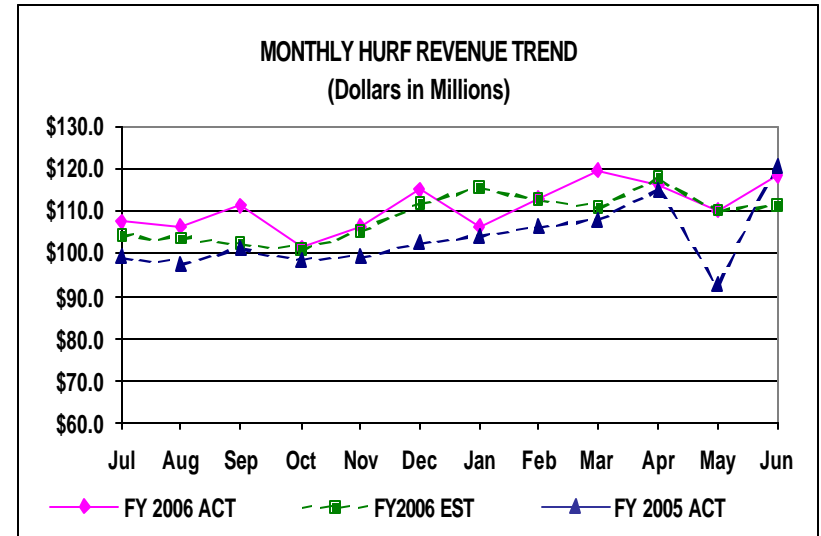
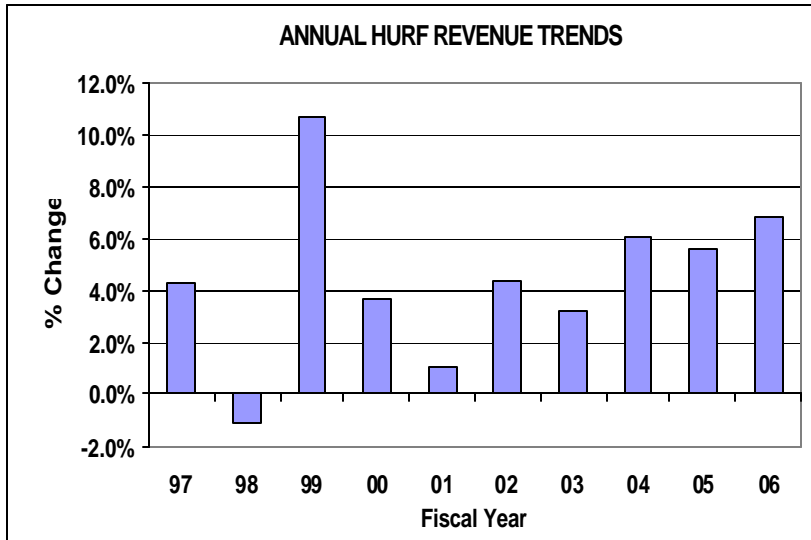
Executive Summary

The State of Arizona taxes motor fuels and collects fees relating to the registration and operation of motor vehicles, including gasoline and use fuel taxes, motor carrier fees, motor vehicle registration fees, vehicle license taxes (VLT), and other miscellaneous fees. Revenues are deposited in the Arizona Highway User Revenue Fund (HURF) and are then distributed to the cities, towns and counties and to the State Highway Fund. These taxes and fees are a major source of revenue to the state for highway construction, improvements and other related expenditures.

HURF revenues in FY 2006 totaled \$1,331.6 million, an increase of 6.9 percent over FY 2005 and 1.9 percent above the estimate. Even with the significantly higher fuel prices, all major revenue categories posted year-over-year growth. The strongest growth occurred in the use fuel tax, vehicle license tax (VLT) and other revenue categories. Arizona and the rest of the nation experienced a growing economy in FY 2006 even with the higher fuel prices and interest rates along with the hurricanes in the Gulf coast.



Revenue Trend Analysis



The average annual growth in HURF collections over the last ten years amounted to 4.5 percent with only one year with negative growth during this period. As noted in previous year-end reports, the negative growth in FY 1998 was due mainly to the implementation of certain fuel tax and commercial registration legislation. This legislation had the effect of deferring significant revenues into FY 1999, accounting for the 10.7 percent growth that year. FY 2006 HURF revenue growth of 6.9 percent was the second highest year-over-year growth rate within the past ten fiscal years. This above average growth rate was attributable to Arizona's continued strong employment and population growth and continuing strength in the trucking industry.

FY 2006 HURF revenues finished the year 1.9 percent or \$25.3 million above the forecast. The monthly revenues tracked the monthly estimates consistently except in September, January and March when there were timing differences with commercial registration fees.

Performance By Category

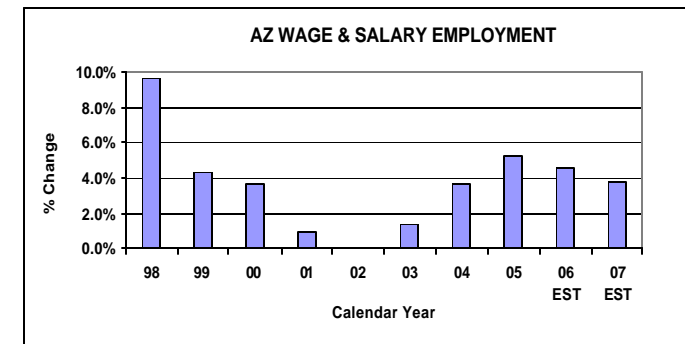
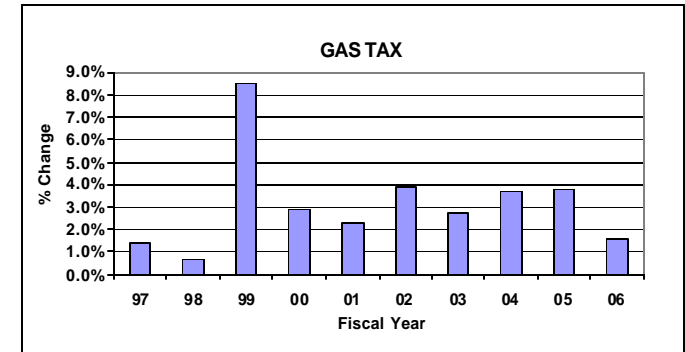
Gas Tax:

Gas tax collections in FY 2006 totaled \$489.1 million, an increase of 1.6 percent over FY 2005, but 1.6 percent below the estimate. With the approximately 25 percent increase in gas prices, it appears Arizona consumers may have curtailed their driving habits somewhat to offset the price increase.

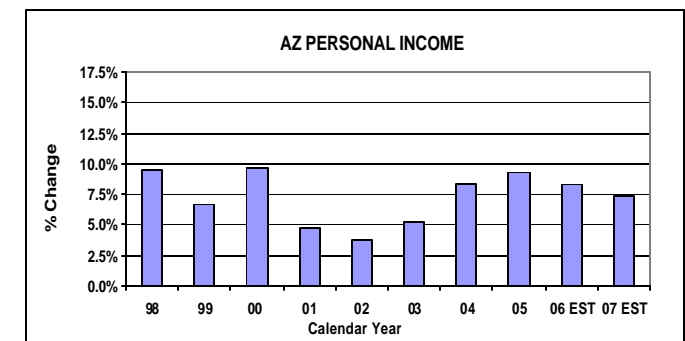
Past studies on fuel price elasticity have concluded that the price of gas is relatively inelastic. Although the average price of gas in Arizona increased from \$2.29 on June 29, 2005 to \$2.89 on June 29, 2006, gas tax revenues did increase 1.6 percent over last year. More time is needed to determine the continuing impact of higher prices on price elasticity.

The June 2006 Arizona Blue Chip Forecast reported wage and salary employment growth jumped from 3.7 percent in CY 2004 to 5.3 percent in CY 2005. The Arizona Blue Chip economists expect Arizona's wage and salary employment to moderate over the next two years. The consensus panel estimates for CY 2006 and CY 2007 are 4.6 and 3.8 percent, respectively.

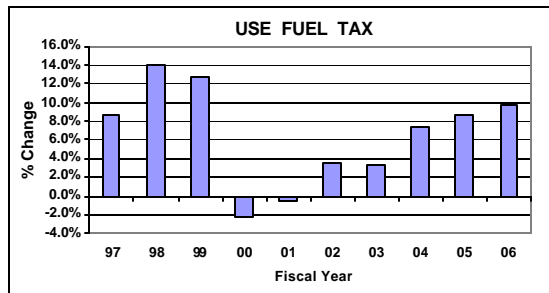
Arizona's personal income also is expected to moderate over the next two years. The Arizona Blue Chip Forecast economists predict Arizona personal income growth in CY 2006 and CY 2007 at 8.3 and 7.4 percent, respectively.



Source: Arizona Blue Chip Forecast, June 2006

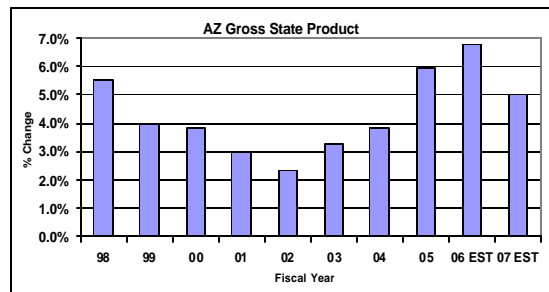


Source: Arizona Blue Chip Forecast, June 2006



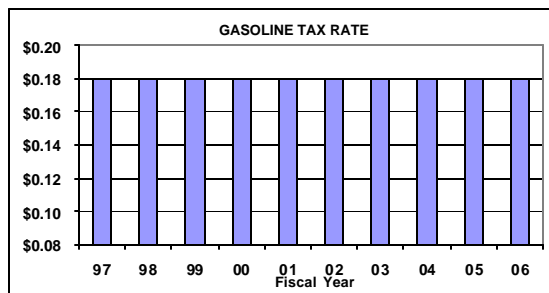
USE FUEL TAX:

FY 2006 use fuel tax collections amounted to \$213.5 million, an increase of 9.8 percent over FY 2005 and 4.1 percent above the estimate. The increase in Arizona use fuel (diesel) prices from \$2.46 on June 30, 2005 to \$3.07 on June 29, 2006 had little bearing on use fuel collections. Past economic studies that found the price of gas as relatively inelastic have found use fuel to be somewhat elastic. As the price of use fuel increases demand tends to decrease. However, this effect seems to have been offset by the strong economy and demand for consumer goods.



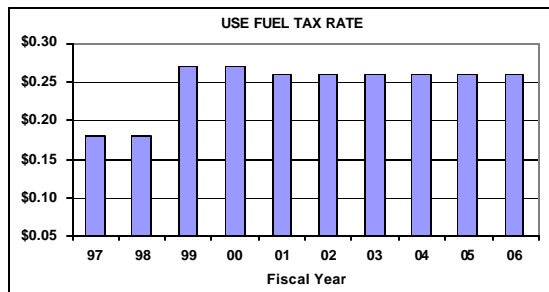
Source: Bureau of Economic Analysis June 2006. Estimates extrapolated from US GDP estimates from Global Insight 1st Quarter 2006.

A barometer for business activities on the state level is the gross state product. With the strong employment and population growth experienced in Arizona over the last couple of fiscal years, the Arizona Real Gross State Product increased by 3.8 percent in FY 2004 and 5.9 percent in FY 2005. Arizona Real Gross State Product growth is expected to show continued strength in FY 2006 with 6.7 percent growth but then slow to 5.0 percent in FY 2007.



GASOLINE TAX RATE:

The gasoline tax rate chart on the left shows the state gasoline tax of \$0.18 per gallon. The last gasoline tax rate increase was \$0.01 in FY 91.

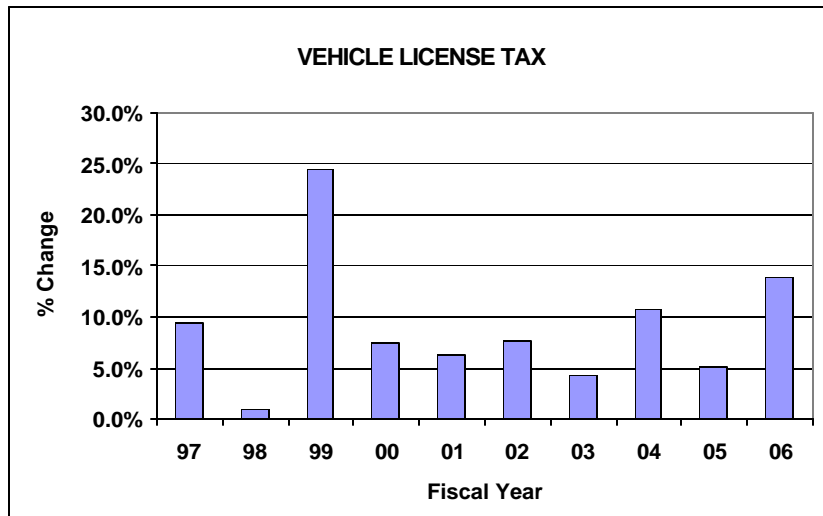
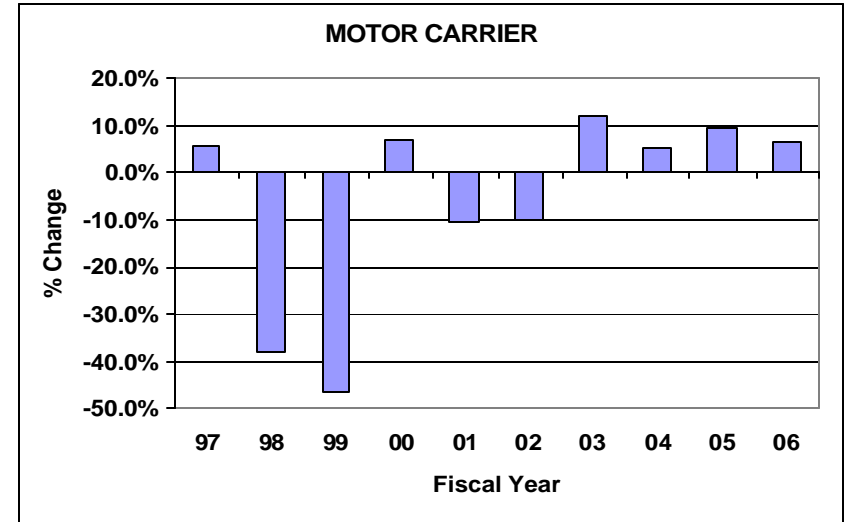


USE FUEL TAX RATE

Presently, the state use fuel tax rate is \$0.26. The large increase in FY 1999 includes a \$0.09 per gallon tax increase imposed on use fuel consumed by “use class” vehicles per Laws 1997, Chapter 8. This increase replaced the \$0.08 per gallon surcharge on use fuel from January 1, 1994 through September 30, 1997, which is not reflected in this chart. As of July 1, 2000, the use fuel tax rate was reduced from \$0.27 to \$0.26 per gallon as part of the 1997 legislation.

MOTOR CARRIER FEE:

Motor carrier fee revenues in FY 2006 totaled \$40.5 million, an increase of 6.6 percent over FY 2005 and 0.5 percent above the estimate. The continued demand for goods movement at the state and national level has contributed to the modest growth in motor carrier fee revenues. In addition to the motor carrier revenues, use fuel tax and a portion of the registration revenues are all related to the trucking industry.



VEHICLE LICENSE TAX:

FY 2006 VLT revenue amounted to \$373.9 million, an increase of 13.9 percent over last year and 6.7 above the estimate. Much of the growth in FY 2006 can be attributable to an additional 370,000 vehicle registration renewals over FY 2005. In addition, FY 2005 VLT revenues were reduced by two statutory programs that were passed in FY 2002 and FY 2004. The two programs reduced the VLT by \$9.7 million in FY 2005.

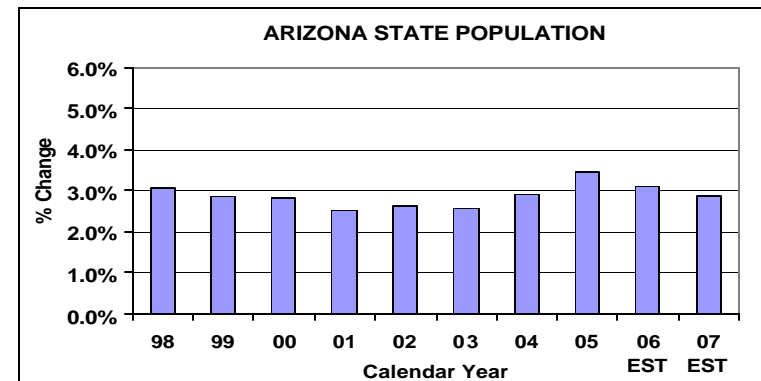
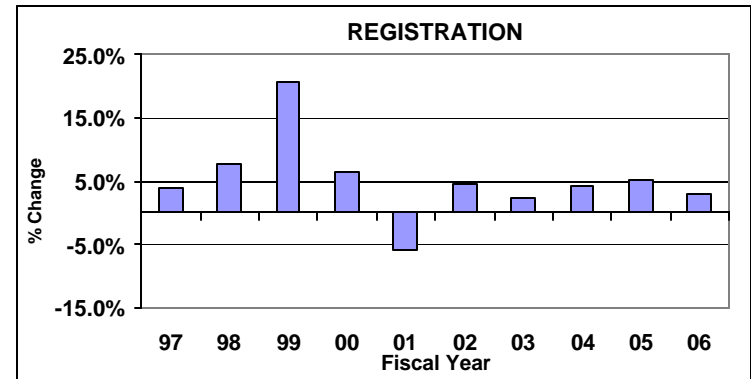
REGISTRATION:

Registration collections in FY 2006 totaled \$158.8 million, an increase of 3.0 percent over FY 2005, but 0.9 percent below the estimate. Non-commercial registrations were the main contributor to the growth in registration collections. As noted in the VLT section, Arizona experienced a large growth in the vehicle registration renewals in FY 2006.

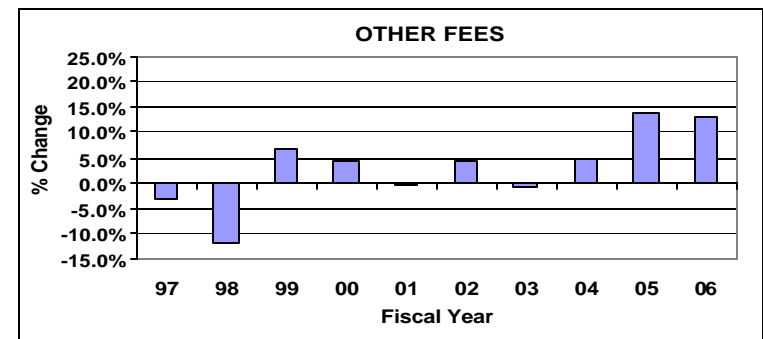
According to the June 2006 issue of the Arizona Blue Chip Forecast, Arizona's population totaled 5.9 million in CY 2005, an increase of 3.5 percent over CY 2004. Strong employment growth in Arizona has led the Arizona Blue Chip consensus panel to increase its Arizona population growth estimates to 3.1 percent in CY 2006 and 2.9 percent in CY 2007. Arizona has gained approximately 773,000 new residents between CY 2000 and CY 2005.

OTHER FEES:

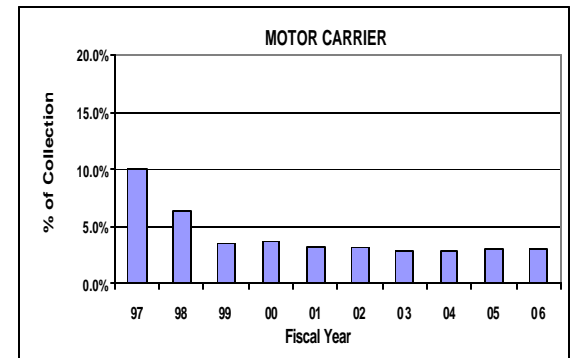
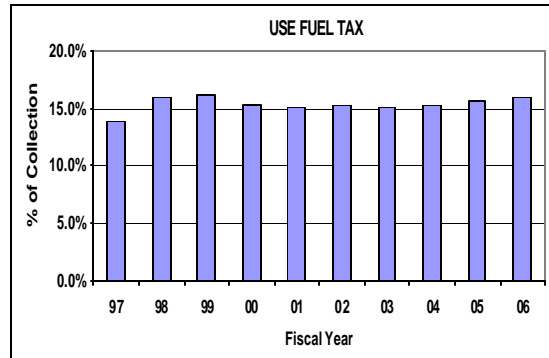
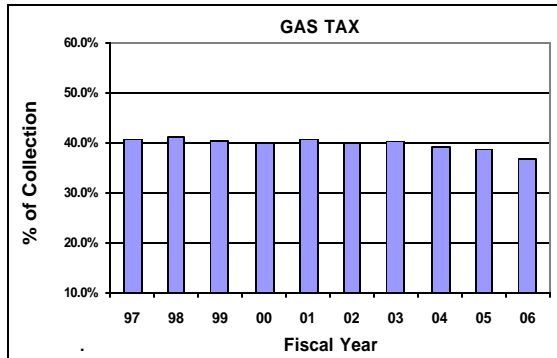
FY 2006 "other fees" collections totaled \$55.8 million, an increase of 12.8 percent over FY 2005 and 5.1 percent above the estimate. The higher revenues were a result of a full year of implementation of Laws 2004, Chapter 333 (SB 1233) which allows MVD to retain a \$12 processing fee with each VLT refund processed, higher interest rates that led to significantly higher investment interest and population growth which increased demand for operator licenses, vehicle titles and special plates.



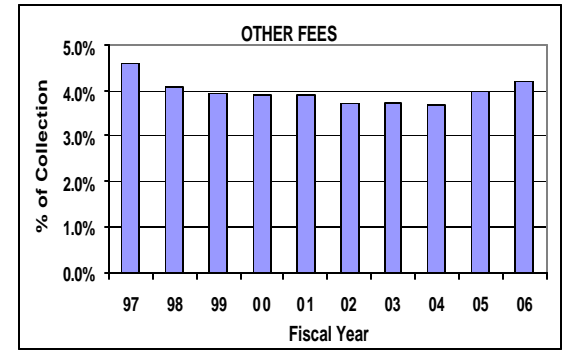
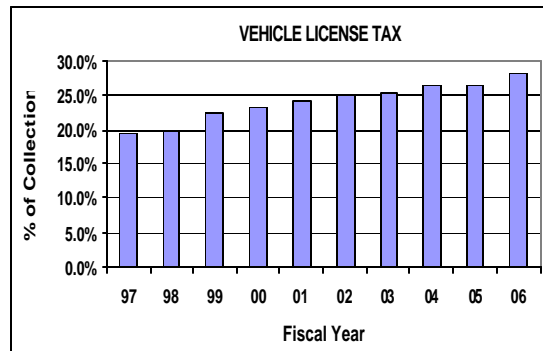
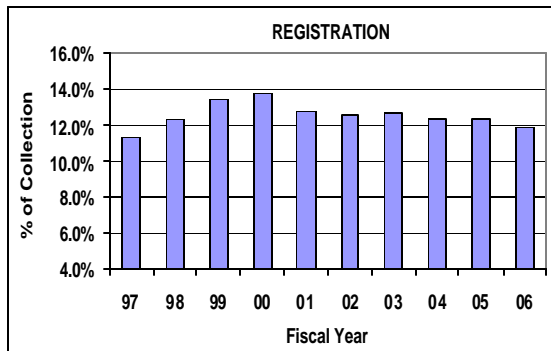
Source: Arizona Blue Chip, June 2006



Revenue Composition Comparison



The composition of HURF collections has varied over the years due to legislation, fuel efficiency and inflation. The gas tax revenue continues to be the largest contributor to the HURF, but its contribution has decreased from 41.3 percent in FY 1998 to 36.7 percent in FY 2006. Although the gas tax share of HURF revenues has decreased over the years, its average annual growth rate over the last ten years has been 3.3 percent or slightly above the population growth. The VLT revenue category has increased its contribution to the HURF from 19.5 percent in FY 1997 to 28.1 percent in FY 2006. This increase is a result of increased population and the inflationary benefit from higher new car prices over time. The decrease in the motor carrier fee revenue category was the result of 1997 legislation that repealed the weight distance tax and replaced it with higher weight based registration fees on commercial vehicles.

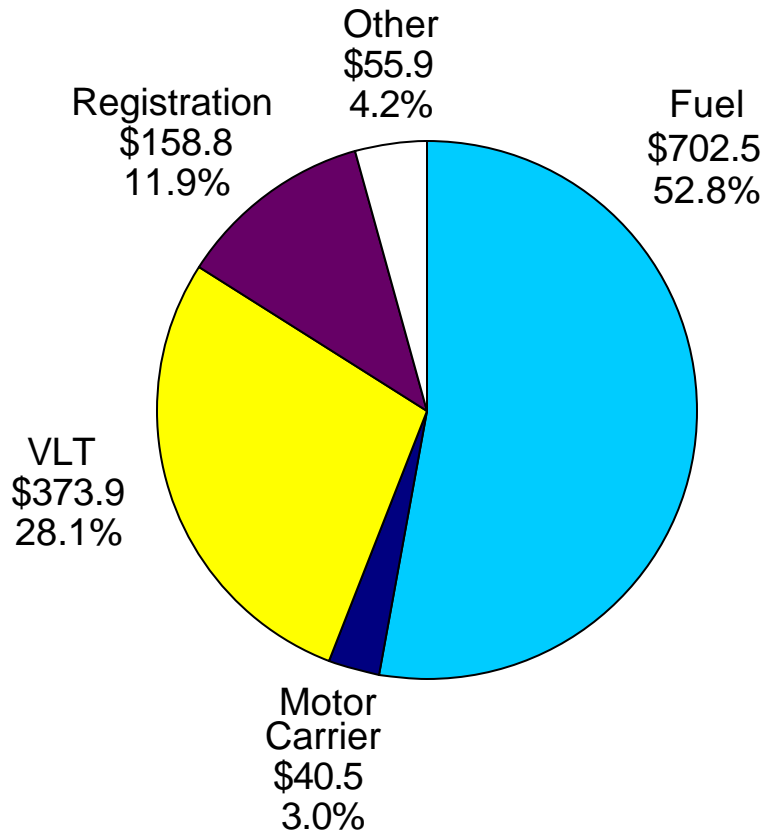


HIGHWAY USER REVENUE FUND SOURCES AND DISTRIBUTION OF FUNDS

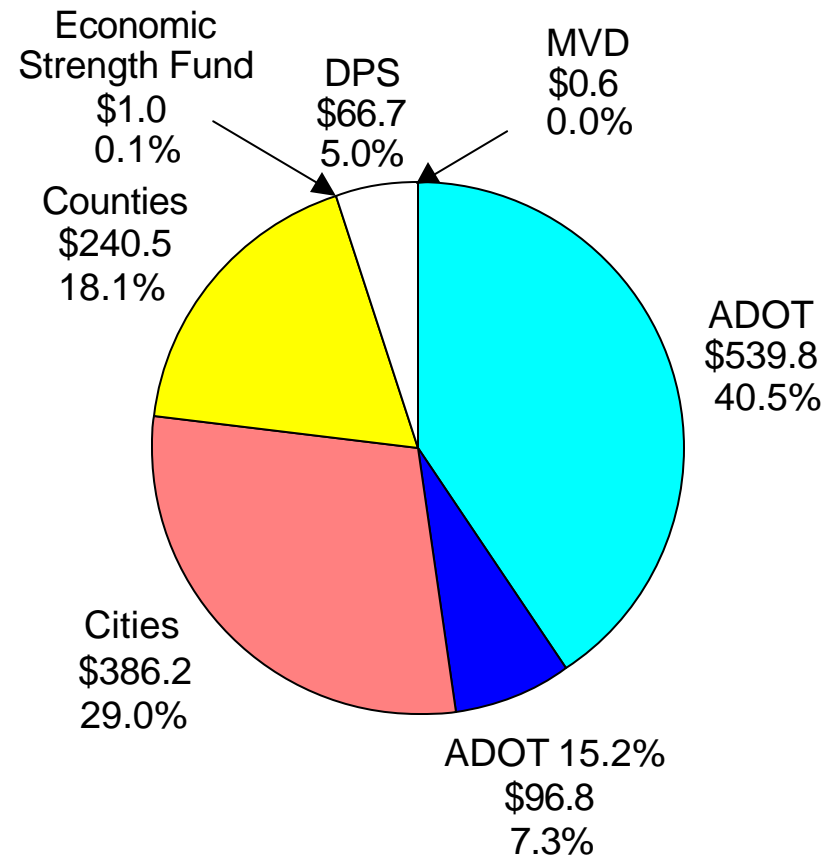
FY 2006

TOTAL: \$1,331.6 MILLION

SOURCES



DISTRIBUTION



NOTE: ADOT 15.2% represents ADOT's allocation of HURF for MAG and PAG regional projects.

Highway User Revenue Fund

Revenue Comparison Statement

CATEGORY	FY 2005 ACTUAL	FY 2006 ACTUAL	CHANGE	FY 2006 ESTIMATE	CHANGE
GAS TAX	\$481,284,019	\$489,080,644	1.6%	\$497,200,000	-1.6%
USE FUEL TAX	194,368,181	213,460,036	9.8%	205,000,000	4.1%
SUBTOTAL	675,652,200	702,540,679	4.0%	702,200,000	0.0%
MOTOR CARRIER	37,980,023	40,504,406	6.6%	40,300,000	0.5%
VEHICLE LICENSE TAX	328,231,521	373,863,974	13.9%	350,300,000	6.7%
COUNTY REGISTRATION	73,507,413	78,361,025	6.6%	76,100,000	3.0%
APPORTIONED	67,851,736	66,736,795	-1.6%	71,000,000	-6.0%
MISC. REGISTRATION	12,763,197	13,706,945	7.4%	13,200,000	3.8%
SUBTOTAL	154,122,347	158,804,765	3.0%	160,300,000	-0.9%
TITLE FEES	8,102,728	8,762,093	8.1%	8,400,000	4.3%
OPERATOR LICENSES	16,588,438	17,458,538	5.2%	17,100,000	2.1%
OVERSIZE PERMITS	6,080,060	6,088,543	0.1%	6,400,000	-4.9%
INQUIRY FEES	11,118,943	11,950,129	7.5%	11,700,000	2.1%
STATION FUEL FEES	2,091,648	2,142,302	2.4%	2,200,000	-2.6%
INVESTMENT INTEREST	953,921	1,853,619	94.3%	1,300,000	42.6%
SPECIAL PLATES	6,090,382	6,957,155	14.2%	6,300,000	10.4%
CREDIT CARD FEES	(4,785,146)	(5,550,847)	16.0%	(5,500,000)	0.9%
MISCELLANEOUS FEES	3,326,126	6,249,342	87.9%	5,300,000	17.9%
SUBTOTAL	49,567,101	55,910,873	12.8%	53,200,000	5.1%
TOTAL	\$1,245,553,193	\$1,331,624,697	6.9%	\$1,306,300,000	1.9%

Details may not add to the total due to individual rounding.

Highway User Revenue Fund

Revenue Collections By Category

(Dollars In Thousands)

FY 1997- 2006

Fiscal Year	Vehicle						Total /1	Percent Change
	Gas Tax	Use Fuel Tax	Motor Carrier	License Tax	Registration	Other		
1997	\$363,953	\$124,748	\$90,186	\$175,253	\$101,528	\$41,294	\$896,962	
1998	366,377	142,167	63,846	176,950	101,722	36,425	887,487	-1.1%
1999	397,463	160,312	34,150	220,126	131,952	38,775	982,779	10.7%
2000	409,137	156,599	36,563	236,547	140,345	40,409	1,019,599	3.7%
2001	418,400	155,859	32,678	251,613	132,269	40,147	1,030,965	1.1%
2002	434,818	161,507	29,347	270,641	138,210	41,873	1,076,395	4.4%
2003	446,891	166,744	32,856	281,947	141,328	41,490	1,111,256	3.2%
2004	463,531	179,002	34,617	312,262	146,638	43,510	1,179,561	6.1%
2005	481,284	194,368	37,980	328,232	154,122	49,567	1,245,553	5.6%
2006	489,081	213,460	40,504	373,864	158,805	55,911	1,331,625	6.9%
Total	\$4,270,935	\$1,654,766	\$432,728	\$2,627,435	\$1,346,920	\$429,401	\$10,762,182	

1/ Details may not add to the total due to individual rounding.

Highway User Revenue Fund

Revenue Distributions

(Dollars In Thousands)

FY 1997-2006

FISCAL YEAR	ARIZONA HIGHWAY FUND	MAG CONTROLLED ACCESS	PAG CONTROLLED ACCESS	CITIES AND TOWNS	COUNTIES	DEPT. OF PUBLIC SAFETY / 1	ECONOMIC STRENGTH PROJECT FUND / 2	OTHER MISCELLANEOUS APPROPRIATIONS	TOTAL / 9
1997	\$376,193	\$50,573	\$16,858	\$267,931	\$166,908	\$17,500	\$1,000		\$896,962
1998	373,206	50,171	16,724	265,803	165,583	15,000	1,000		887,487
1999	413,371	55,571	18,524	294,410	183,403	12,500	1,000	\$4,000 /3	982,779
2000	430,668	57,896	19,299	306,729	191,077	12,500	1,000	430 /4	1,019,599
2001	433,248	58,243	19,415	308,567	192,222	12,500	1,000	5,770 /4	1,030,965
2002	438,230	58,913	19,638	312,115	194,433	52,066	1,000		1,076,395
2003	451,827	60,741	20,247	321,799	200,465	54,528	1,000	648 /5	1,111,256
2004	483,688	65,024	21,675	344,491	214,601	48,698	1,000	383 /5	1,179,561
2005	410,362	55,167	18,389	363,535	226,464	52,216	1,000	118,420 /5 /6 /7	1,245,553
2006	539,865	72,576	24,192	386,128	240,538	66,693	1,000	633 /5 /8	1,331,625
Total	\$4,350,658	\$584,875	\$194,960	\$3,171,508	\$1,975,695	\$344,201	\$10,000	\$130,285	\$10,762,182

NOTES:

- 1/ The legislature has authorized the distribution of Arizona Highway User Revenue Fund (HURF) monies to the Arizona Department of Public Safety (DPS) for highway patrol expenditures. Per Laws 2005, Chapter 306 (SB 1119), the DPS Parity Compensation Fund receives 1.51 percent of the state highway fund share of the HURF VLT beginning in FY 2006.
- 2/ The Economic Strength Project Fund was statutorily established on May 17, 1989. Money in the fund is to be used for highway projects that provide economic benefits to the State or local jurisdiction.
- 3/ Appropriation to the Department of Commerce for Williams Gateway Authority roadway projects.
- 4/ Appropriation for construction of the Prescott Regional Transportation Center.
- 5/ Appropriation for the MVD vehicle registration enforcement program (\$383,300).
- 6/ Appropriation to MVD to implement special 30-day nonresidents permit (\$37,000).
- 7/ Laws 2004, Chapter 282 (SB 1413) transfers \$118 million of the state highway fund share of HURF VLT to the state general fund in FY 2005.
- 8/ Laws 2005, Chapter 313 (SB 1254) appropriates \$250,000 from the HURF to the ADOT (MVD) for 3rd Party program..
- 9/ Details may not add to the total due to individual rounding.

Highway User Revenue Fund

Distributions to Cities, Towns and Counties

FY2006

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Highway User Revenue Fund

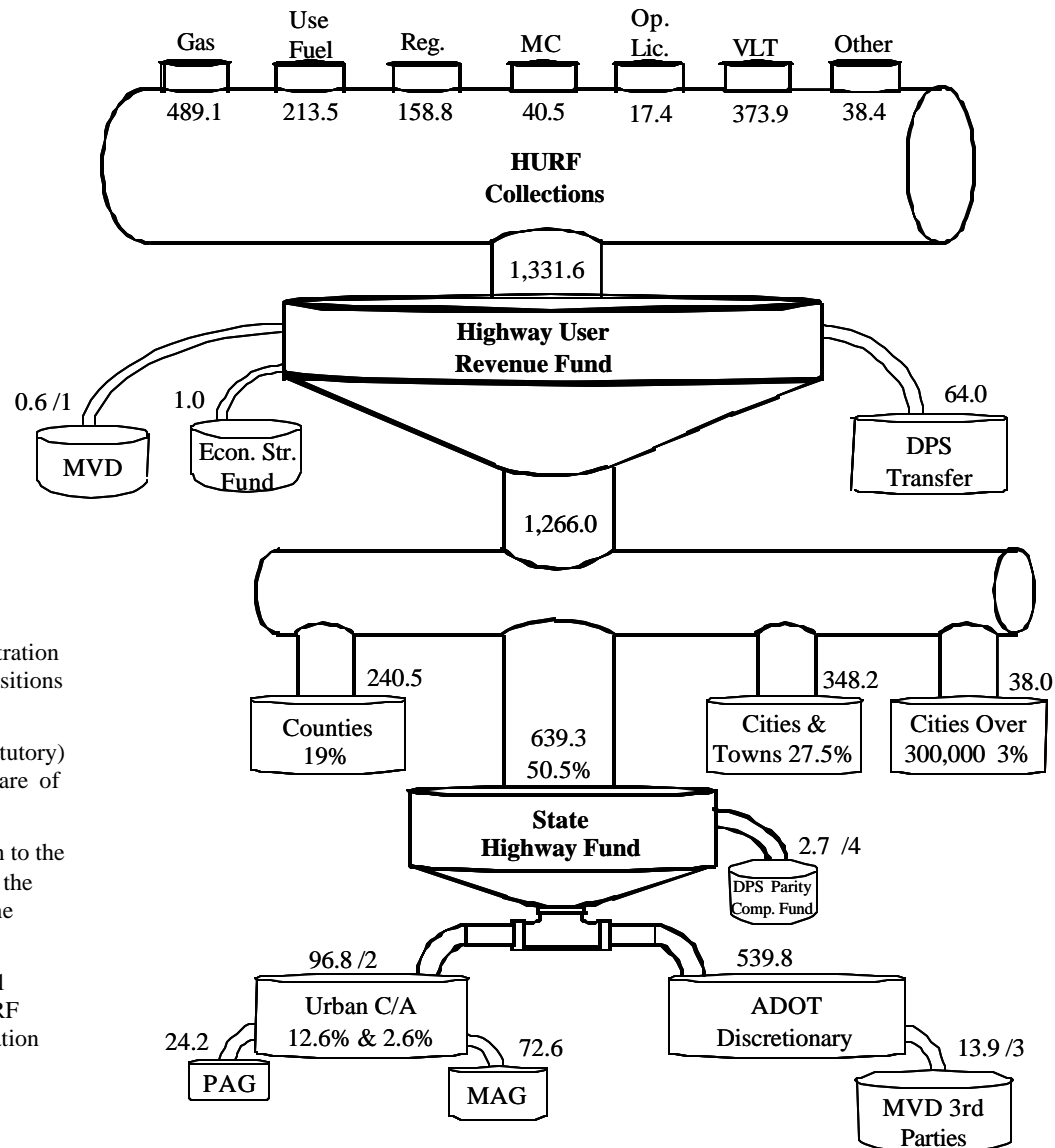
Distribution Overview

Revenues from: \$.18 Gas Tax \$.26 Use Fuel Tax (7/00) Vehicle Registration Motor Carrier Fee 44.99% of VLT (12/00) Other .	Distribution breakdown: 50.5% to State Highway Fund 27.5% to Cities & Towns 3% to Cities over 300,000 19% to Counties	Distribution formulas: 7.67% to Maricopa and Pima Counties for Controlled Access with a 75% and 25% split respectively. (Statutory 12.6% & Special 2.6% money) 4 2.83% to ADOT Discretionary. One half distributed on basis of incorporated population and one half on the basis of county origin of gasoline sales and city or town population within each county. Distributed to Phoenix, Tucson and Mesa based on population. Distributed based on a portion of gasoline distribution and diesel fuel consumption and on a portion of unincorporated population. The split is as follows: 85/15 in FY 1997, 80/20 in FY 1998, 76/24 in FY 1999, and 72/28 in FY 2000 and thereafter)
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Highway User Revenue Fund

FY 2006 Actual Revenue Distribution Flow

(Dollars in Millions)



NOTES:

/1. Appropriation to MVD for vehicle registration enforcement program (\$383,300) and 5 FTE positions for 3rd Party program (\$250,000).

/2. The 12.6% (statutory) and 2.6% (non-statutory) allocations from the State Highway Fund share of HURF distributions.

/3. With the elimination of the VLT distribution to the state highway fund, a distribution is made from the state highway fund to MVD Third Parties for the collection of VLT.

/4. Per Laws 2005, Chapter 306 (SB 1119), 1.51 percent of the state highway fund share of HURF VLT is distributed to the DPS Parity Compensation Fund.

REVENUE CATEGORY DEFINITIONS

GASOLINE TAX	A per-gallon tax imposed on gasoline used by vehicles on Arizona highways; presently this tax is \$0.18 per gallon.
USE FUEL TAX	Includes all gases and liquids used to propel motor vehicles on the highways in this state except for motor fuel (gasoline). Use fuel consists primarily of diesel fuel. Diesel fuel tax was \$0.27 per gallon, but dropped to \$0.26 per gallon on July 1, 2000 for “use class” vehicles. “Non-use class” vehicles continue to pay \$0.18 per gallon. Jet fuel is exempt from fuel and use fuel taxes.
MOTOR CARRIER FEE	A fee imposed on certain commercial carriers based on vehicle weight. Category also includes: Motor Carrier License Tax, Motor Carrier Tax Penalties, late fees and interest, and Motor Carrier Permits Tax, and application fees.
VEHICLE LICENSE TAX	An annual license tax imposed on registered vehicles in lieu of property taxes.
REGISTRATION FEES	<p>Is made up of three distinct components:</p> <p>County Registration - non-commercial and commercial vehicle registration, and commercial weight fees.</p> <p>Apportioned Registration - commercial registration fees allocated according to miles traveled in Arizona.</p> <p>Miscellaneous Registration - Non-resident Permits, Unassigned Registration, Prorate Stickers, and Registration Penalties.</p>
OTHER FEES	Includes Title Fees, Operator Licenses, Oversize/Overweight Permits and Highway Fines, Inquiry Fees, Use Fuel Permits and Fuel Tax Penalties, Investment Interest, Special Plates, and Other Miscellaneous Fees, less Credit Card Fees.